

IT's competitive advantage

If you ever have cause to question IT's ability to deliver a competitive advantage then take a look at the retail industry. There you will find examples from Australia and the United Kingdom that show just how the astute application of technology can transform the dynamics of a marketplace. In both countries, in a comparatively short period of time, one organisation has harnessed IT to become a virtually unassailable market leader while, on the other hand, the ineffective application of technology has left an erstwhile strong competitor desperately playing the no win game of catch up.

When I left the UK for Australia in 1981 the pre-eminent supermarket chain was Sainsbury's. However, research from TNS Worldpanel in 2008 showed that it had slipped to third place in its share of the UK grocery market. Its portion was about half that of Tesco's which controlled 31.6% of that market. Yet back in 1981 the Tesco brand was something of a music hall joke. It was synonymous with cheap, uninspiring supermarkets. In the intervening years Tesco has turned around its fortunes to such an extent that over £1 in every £7 of UK retail expenditure takes place within a Tesco store. This transformation owes much to the imaginative application of IT.

The first example of this was the promotion of a loyalty card in 1993. At the time the executive realised it had little insight as to who were its customers. The loyalty card helped Tesco profile its customers by enabling it to analyse their purchases. From there it could direct targeted promotions to them. For example, the appearance of nappies in the weekly shop would most likely indicate the arrival of a new baby. Such a customer could then be sent promotions around items such as baby food, milk formula and, of course, nappies. Alternatively, their bond with Tesco could be strengthened through a voucher for a complimentary bottle of champagne to celebrate their new offspring. These are classic examples of business intelligence in operation yet they were happening about ten years before the IT industry had coined this moniker.

However, the area where IT plays the most prominent role within Tesco would be in its supply chain. A recent study on supply chain management by international food and grocery specialist IGD has ranked Tesco's as 'best in class', a position it shared with other prominent global retailers such as Wal-Mart, Aldi, and Ikea. In contrast Sainsbury's attempts to enhance its supply chain have been characterised by repetitive failures. In fact implementation failings in this area a few years ago necessitated the need for Sainsbury's to resort to manual processes for stock ordering.

A similar tale has unfolded in Australia. Its grocery market has long been dominated by Coles and Woolworths, (no relation to the American retailer), which together have about 79% of the branded, packaged grocery market. However, in recent times Woolworths has begun to steal a march on Coles with 2008 data showing that Woolworths had just over 44% of this market compared to Coles with around 34%. Many in the industry trace this dominance to the arrival of Roger Corbett as CEO at Woolworths in the late 1990's.

Corbett unleashed Project Refresh, a major re-engineering effort which helped transform the company's supply chain. This has been reported as costing Woolworth's over \$1 billion yet it has returned savings of more than \$7 billion. Moreover, the efficiencies generated by these systems have widened the gap in supermarket sales with Coles, helping generate at least \$150 million of extra gross margin and creating an advantage that compounds over time. In contrast Coles, like Sainsbury's in the UK, has failed miserably to emulate these supply chain efficiencies.

Good supply chain systems like those at Woolworths and Tesco revolve around excellent inventory management. This automates the management of stock right down to an individual store level. The results are higher stock turns and more accurate demand forecasting which ensures less capital is tied

up in the warehouses as idle inventory. Moreover, key items in most supermarkets are perishable goods like dairy products, fruit, vegetables and bread. As such, a high stock turnover ensures that the products customers buy are fresh and that less is allowed to waste away. For customers these cost savings usually translate in to price reductions.

These improvements in inventory management are then coupled with strong warehouse systems at a consolidated number of distribution centres. These systems focus on better asset utilisation within these enlarged warehouses. They achieve this through better storage arrangements. This accelerates the retrieval of popular items. In addition, forthcoming shipping requests can be recognised to automatically generate work schedules for warehouse staff. The result is that their operational efficiency can be seamlessly improved.

Another important component is the integration of the warehouse with a transport management system. In fact one industry expert told me that in the best supply chains the operations are usually driven by when the trucks will arrive at the warehouse. This dictates what needs to be delivered where and when. The result is that the operation of delivery trucks is optimised so minimising the times when they are waiting or travelling with no load. This expert even argued a convincing case that these practices are genuine contributions by the retail sector towards greater environmental responsibility as greater truck efficiency will lead to fewer journeys and, thus, greater fuel savings.

Throughout all these components within the supply chain are two key considerations. The first is that these are mission critical systems in a large retail operation and any down time is dead money. Secondly, the focus is on delivering greater efficiency both from assets like stock and capital but also from the staff who work there. All this might appear on the surface as a relatively straight-forward application of IT to a business. However, this view trivialises the massive change management that has underpinned these efficiencies.

The systems necessitate whole new ways of working. They have usurped the pre-eminence of the buyers who are traditionally the key staff in a strong retail operation. Furthermore, they have required key executives to take a leap of faith with the potential of technology and to then drive the ensuing projects to ensure they realised this potential. In the case of Roger Corbett it is worth remembering he elected to invest a billion dollars in a totally revamped, but unproven, operating model even though Woolworths was the market leader at the time.

Retail is acknowledged as a tough industry, especially in the grocery area. Margins are tight, stock has limited shelf life, operations are relentless, customers are demanding and their loyalty can be fickle. There is little margin for error in such circumstances. However, for both Tesco and Woolworths the effective deployment of IT has transformed these organisations in to world leaders in the retail marketplace. Often the achievements of the IT industry can be taken for granted while our failings can hang around to haunt us. Yet, as Tesco and Woolworths highlight, any company that wants to become a market leader must first have the resolve to determine where and how IT can help their business blossom.